

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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TO: Sheila Hogan, Department of Administration
Mike Tooley, Department of Transportation
Tori Hunthausen, Legislative Auditor
Linda McCulloch, Secretary of State
Tracy Stone-Manning, Department of Environmental Quality
Tim Fox, Attorney General

FROM: Dan Villa, Budget Director, Office of Budget and Program Planning

SUBJECT: Guidelines for Fixed Costs Schedules for the 2017 Biennium Budget

The Office of Budget and Program Planning is beginning the process of developing the fixed cost allocations for the 2017 Biennium Executive Budget. These guidelines apply to the development of all fixed costs.

In addition to submitting its fixed costs, the Department of Administration will submit an equipment price list and natural gas procurement. The Department of Environmental Quality will submit the Energy Conservation Account repayment schedule.

As in previous years, any requests for increases in rates above the base must be thoroughly justified and will be scrutinized very closely.

Fixed Costs

For the following agencies please submit the proposed rate for the following services:

SOS: Administrative Rules, Records Management, and Microfilming Charges
DOJ: Agency Legal Services

Fixed Cost Allocations

For the following agencies please submit the fixed cost allocations for each client agency. If there is a change in the allocation method, please discuss with Sonia Powell. Consolidate your documentation into as few files as possible, using multiple tabs within an Excel file.

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62104	Insurance & Bonds – Fixed Costs	DOA
62113	Warrant Writing Services	DOA
62114	HRIS Service Fee	DOA
62122	Audit Fees	LAD
62148	SABHRS Administrative Costs	DOA
62307	Messenger Services	DOA
62527	Capitol Complex Rent	DOA
62770	Capitol Complex Grounds	DOA
62888	SWCAP	DOA
62114A	Workers' Comp Program Fees	DOA
621C5	ITSD Enterprise Services	DOA

For the following agencies, submit the requested adjustment factors for the following accounts:

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62404	In-State Motor Pool	DOT
62510	Motor Pool Leased Vehicles	DOT

General Guidelines

The administering agency must assure compliance with the Office of Management and Budget (OMB) Circular A-87 cost allocation requirements when developing the rates. These requirements can be currently found at OMB's website:

<http://www.whitehouse.gov/omb/circulars>

Note: Effective December 14, 2014, OMB Circular A-87 is replaced by the new OMB Uniform Grant Guidance. However, fixed costs allocations should still be prepared using OMB A-87 requirements, since this guidance will be in effect during the Executive Budget process.

Supporting Documentation for Rate Development

You will need to provide sufficient documentation to support your rates. The following are two key statutes.

17-7-123, MCA ... fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.

17-8-101, MCA... fees and charges for services deposited in the internal service fund type must be based upon commensurate costs. The legislative auditor, during regularly scheduled audits of state agencies, shall audit and report on the reasonableness of internal service fund type fees and charges and on the fund equity balances..... The payment of funds into an internal service fund must be authorized by law.

Remember, rate increases by administering agencies will impose budget constraints on the other state agencies.

Give a general description of service(s), a projection of demand for each service, a projection of the rate, and the rate methodology.

When building your analytical reports, please include FY 2012 through FY 2017, revenue, expenses, and year-end working capital balance.

- For FY 2014, include estimated expenses through fiscal year end at second level. If your actual expenditures are materially different at fiscal year- end closing, you will need to resubmit.
- For FY 2015, project expenses at second level and utilize your anticipated revenue.
- Calculate FY 2016 and FY 2017 operating expenses and rates using FY 2015 expenses and zero inflation.
- If there are major objects of expenditure, which are expected to increase/decrease by amounts significantly different than the zero percent inflation factor, identify the cost assumptions and provide supporting documentation.
- Be able to break new funding requests into decision packages (both PL and NP) that show how it will affect rates.

For example, a 5% increase in elevator service contracts equals a 5 cent square foot increase in rental rates.

- Propose a rate structure, by service, with and without decision packages to the agencies affected.

Working Capital

Working capital balance is the cash and/or cash equivalents minus short-term liabilities. Working capital reserves are analyzed in determining the rate. At the end of the 2017 biennium, projected working capital reserves may not exceed 60 days average daily expenses, unless a different number of days have received federal approval.

OMB Circular A-87 "Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases....."

The state accounting policy on working capital is found in Chapter 302.

Segregation of "Service Categories" & Inclusion of All Services within a Category

Account for all service categories, regardless of whether there are separate funds. A service category is defined as a set of closely related services (two or more). The policy for this requirement is that intra-governmental services should be managed as a cooperative enterprise. The "customers" for one service category should not subsidize another, unless such subsidies have been explicitly considered in the policy-making process and are justified from the perspective of the state enterprise.

Due Date

All requested information must be e-mailed to Sonia Powell by July 9, 2014.

Next Steps – Dog Days of Summer

The OBPP will analyze these schedules and rates in July. On August 5, 2014, OBPP will host a Fixed Cost Workshop for agencies to discuss, and question, service providers with regard to their rates. Please prepare a presentation for this dialogue.